



Final Minutes
Endowment Fund Investment Board Regular Meeting
August 18, 2005

A regularly scheduled meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on August 18, 2005. Chairman M. Dean Buffington called the meeting to order at 9:04 a.m. and recognized that a quorum was present.

Member's Present:

M. Dean Buffington
Gavin Gee
Representative William Deal
Parker Woodall
Tom Kealey
Senator Brad Little
William Mitchell
Vaughn Heinrich
John Taylor

Legal Counsel

Julie Weaver, Deputy AG

Staff Present:

Richelle Sugiyama
Andrew Potter
Judy Shock

Guests:

Eric Micek, RBC Dain
John Pickett, RBC Dain
Bobby Lawrence, Eide Bailly
Jae Hallett, Eide Bailly
Bob Maynard, PERSI
Justice Burdick, JRS
Corrie Keller, JRS
Bill Reese
Larry Schlicht, DFM

Chairman Buffington introduced and welcomed EFIB's newest board member, Vaughn Heinrich.

Hard copies of board materials were mailed a week prior to the scheduled board meeting. Ms. Sugiyama passed out updated board materials, and made note of replacement materials from the August 2 teleconference meeting. Bound copies of the Eide Bailly audit were also passed out.

1. Board Meeting Minutes: *Approved*

A motion was made by Parker Woodall to approve the minutes for the following Board meetings: March 8, 2005 Special Meeting, June 22, 2005 Regular Board Meeting and August 2, 2005 Teleconference Meeting. The motion was seconded by Senator Little and carried unanimously.

At Ms. Sugiyama's request, the board members signed the document, "Acknowledgement of Specimen Signatures of Board Members and Individuals Designated by the Board as Authorized Signers". This will be kept on file at the EFIB office, distributed as necessary to those who take direction from the EFIB (custodian, managers, etc.), and updated as needed.

2. Audit Update – Eide Bailly

Bobby Lawrence and Jae Hallett presented the results of the Audit. Mr. Woodall requested that Eide Bailly highlight the changes since the draft was distributed and reviewed by the Audit Committee. Mr. Lawrence thanked the Board for the opportunity to perform the audit and indicated that it was a smoother process this year. Mr. Lawrence pointed out the key adjustments: the inclusion of the Capitol Permanent Fund and the restatement of the FY 2005 financials to reflect the appropriate allocation of gains and losses. Pages 24 and 28, the supplemental schedules, were re-worked by Ms. Sugiyama and Eide Bailly. Careful consideration was taken and previous audit reports were reviewed to insure accuracy. On behalf of the audit committee, Mr. Woodall expressed his appreciation to Mr. Lawrence and his team for their efforts, and formally accepted the audit.

Senator Little asked if there are any conditions that need to be noted in a policy manual regarding reimbursement of expenses. Mr. Woodall asked if there is an existing policy dictating the approval process of EFIB employee or office expenses. He asked that a policy be adopted for the next board meeting, regarding reimbursement expenditures. Chairman Buffington stated that when the former MOI was requesting travel, an email was sent requesting approval. Mr. Potter indicated that on reimbursement expenses, Connie would approve the expenses, and he would complete the payment process. These were not sent to a supervisor or executive committee for approval prior to payment. Senator Little also asked that some type of journal be set up regarding procedures, especially with the hiring of a new Manager of Investments (MOI). He requested that a written list of audit procedures be available as well. Ms. Sugiyama suggested that policies for travel, expenses, etc. be updated, approved and placed in a binder. Mr. Kealey agreed that this should be done for the next board meeting. Mr. Woodall acknowledged that this would be a good tool in training the new MOI.

Mr. Woodall made a motion to have reimbursement expenses approved by designated supervisor. The motion was seconded by Mr. Gee and it was carried unanimously. Mr. Woodall also asked for clarification regarding who approves expenses incurred by board members.

Mr. Woodall made a motion to accept and approve the audit given by Eide Bailly. Mr. Mitchell seconded the motion, and it was carried unanimously.

Senator Little asked that a list be presented to EFIB staff within the next six months, regarding the audit expectations for next year. Chairman Buffington agreed and thanked Eide Bailly for their organization and working with EFIB staff during the transition period.

3. Client Updates – Staff & RBC Dain

John Pickett, RBC Dain handed out a Transition Summary Report.

Mr. Pickett reviewed the Compliance Checklist for each fund. He indicated that the market has been good and summarized the hiring of Intech and Sands Capital for large growth and moving Mastrapasqua to a mid cap assignment. He noted a few performance problems with Oppenheimer, Barrow & Hanley and Nicholas Applegate. He said that these are not critical. RBC Dain will work with the new MOI to make any modifications with the portfolio. RBC Dain has put Marvin & Palmer on the “watch list”, and will be monitoring them. Mr. Pickett noted that the year-to-date shows at least an index performance. Ms. Sugiyama noted that over the last 3-6 months, many large cap growth managers have been underperforming and

that may be a function of their style. She also pointed out that it is a concentrated portfolio and the EFIB should take that under consideration. Mr. Pickett shared that it's best to not terminate or get out of the sector of the large cap style. Mr. Kealey asked if we should check out a different manager. Mr. Pickett believes that this should be looked at; however the need to change managers is not crucial and it can wait until the new MOI is on board. Mr. Micek agreed with Ms. Sugiyama that the recent performance of large cap growth managers is positive and getting better. Chairman Buffington asked if visits are done with these managers in regard to their performance. Mr. Micek has met with Marvin & Palmer several times and will continue to monitor them. Chairman Buffington stated that we should give the new MOI an opportunity to look at Marvin & Palmer regarding their performance. Mr. Gee asked about the chart on page 26 and what is being done to capture this. Mr. Pickett responded that managers are allowed to go into emerging markets, but we are not. He indicated that having emerging market allocations can be difficult. Year by year one can see fluctuations up/down 40-50%, which causes concern. Mr. Pickett also said that Northern Trust has helped as the transition manager with the termination of Artisan, hiring Sands and Intech, and moving Mastrapasqua to mid cap. Northern Trust has made this process easier.

State Insurance Fund - Mr. Pickett shared that there are no asset allocation problems. There is one change in the investment policy – the allocation to cash. This will be removed from the asset allocation because it is not controlled at the investment level. Ms. Sugiyama stated that Mr. Pickett and Mr. Micek are meeting with Jim Alcorn and members of SIF staff today. Mr. Micek reviewed the supplemental Transition Summary highlighting the SIF Chicago Equity Funding -- each manager was accountable from day one. Ms. Sugiyama noted that Chicago Equity replaced Oppenheimer. Mr. Kealey asked how (Capital Institutional Services, Inc. (CAPIS) gets paid. Mr. Pickett answered that they are paid by commissions -- they become the agent broker in regard to buying/selling simultaneously and that this has been handled very well.

Judges Retirement System – Mr. Pickett noted that all managers are in line, except the mid cap vs. actual target. As of yesterday we are where we're supposed to be. Chairman Buffington indicated that a great deal of conversation has been going on with JRS to ensure they understand and approve of our recommendations. . They are pleased that we are carefully and efficiently handling this fund. Mr. Micek said that a fourth transition, the termination of Rainier with transition into Lehman iShares is in process. The market exposure was maintained; eliminated costs; and equitized cash on hand. He said that BGI, the transition manager, was able to liquidate through Northern Trust and buy overnight, with ease.

Bill Reese, of JRS, asked if RBC Dain would be able to assist him in going back ten years to examine and audit the numbers for accounting purposes, calculate the rate of return, and present this information to EFIB Board. He appreciated the RBC Dain and EFIB staff for their assistance with Judges Retirement System. Mr. Micek said that he will assist in examining and auditing the numbers and report the progress to EFIB.

Ms. Sugiyama thanked Mr. Micek for all of his assistance and a job well done. Mr. Micek went above and beyond the traditional consulting role by assisting with the transition, including coordination and routing instruction letters, and by providing

additional reports and assisting with the communication efforts. Mr. Reese thanked the EFIB Board and was appreciative of the weekly reports sent to him.

Ms. Weaver shared that Justice Burdick and Corrie Keller had requested to be included on board issues regarding the JRS in regular and executive board sessions. She stated that unless there was a need to maintain a privilege of confidentiality, she did not have concerns about JRS representatives attending executive sessions. Ms. Sugiyama replied that Judy will send out updates and board meeting agendas inviting Corrie Keller and Justice Burdick (and any others) to attend scheduled board meetings.

Chairman Buffington requested a five minute break at 10:41 a.m.

4. **State Land Board Meeting Update**

Ms. Sugiyama indicated that the SLB meeting went well. Two issues went before the Land Board. First, the Land Board approved the 5% payout recommendation to the public schools and pooled accounts, and the FY04 financial statement was restated. Ms. Sugiyama indicated that Attorney General Wasden made a motion to create a task force committee to among other things, review the status of endowment reform, review the underlying statutes, assess implementation of those statutes, ensure streamlined communication between both Boards, and other issues which should be addressed by the EFIB and the SLB. Representative Deal volunteered to represent EFIB on the Task Force.

5. **EFIB Office Budget**

Mr. Potter provided an update on the EFIB budget. Mr. Potter indicated that at present, there are three full time positions and one part time position for EFIB staff. The former Administrative Assistant 2 position was a part-time position, entailing 24 hours a week. Ms. Sugiyama requested that this position be considered as a full time position. Mr. Buffington expressed his support of full-time administrative assistance. Mr. Kealey asked if legislation is needed before this consideration is made. Mr. Schlicht responded that this is not necessary. The budget will include four full-time positions for FY06 and FY07.

Mr. Potter went over the beneficiary distributions. Chairman Buffington asked if these numbers have been presented to the Land Board. Mr. Potter indicated that the legislature set the 2006 payouts for the pooled beneficiaries. Senator Little inquired if these agencies know about this. Mr. Schlicht replied that they are aware. Chairman Buffington thanked Mr. Schlicht for attending the board meeting.

EFIB Website: Ms. Shock gave a brief overview of the EFIB website, which now includes a secured access section, provided by the Dept. of Administration, which will enable Board members to log on and retrieve their Board materials.

6. **Next Meeting**

The next meeting date will be a Joint Land Board meeting on November 8, 2005.

7. **Executive Session**

Idaho Code §67-2345 authorizes the Board to enter into executive session for the purpose of discussing possible legal actions § 67-2345(1) (f) or personnel issues §67-2345 (1) (b) or §67-2345 (1) (d) records that are exempt from disclosure. Any resulting action will take place when the Board resolves back into regular session.

Those issues being before the Board, Representative Deal moved to enter Executive Session, second by Mr. Gee, the roll call vote was as follows:

Senator Brad Little – Aye
Gavin Gee – Aye
John Taylor – Aye
Parker Woodall – Aye
Vaughn Heinrich – Aye
Tom Kealey - Aye
Representative Deal – Aye
Bill Mitchell – Aye
Chairman Buffington - Aye

The board convened from executive session.

It was determined that the Manager of Investments interviews be in open session.

Senator Little made a motion that HB395 be adopted as stated in the memo from DHR, authorizing the 1% one time increase to EFIB staff. The \$1000 remaining from the budgeted \$3200 will be added to this increase, as directed by the Executive Committee. Mr. Gee seconded the motion, and it was passed unanimously.

Mr. Woodall made a motion to direct Ms. Sugiyama and Mr. Potter to modify the budget for four full time positions. Mr. Kealey seconded the motion, and it was passed unanimously.

8. **Adjournment**

There being no further business to come before the Board, Mr. Gee made a motion, which was seconded by Mr. Woodall, and passed unanimously by members present, the meeting adjourned at 12:41 p.m.